

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Market Dominant Product Prices)	Docket No. MC2014-21
Standard Mail)	
PHI Acquisitions, Inc.)	
)	
Market Dominant Product Prices)	Docket No. R2014-6
PHI Acquisitions, Inc. (MC2014-21))	
Negotiated Service Agreement)	

**VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
FURTHER SUPPLEMENTAL INITIAL COMMENTS ON PHI ACQUISITIONS, INC.
NEGOTIATED SERVICE AGREEMENT
(April 23, 2014)**

On March 27, 2014, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (hereinafter "Valpak") filed Initial Comments on the PHI Acquisitions, Inc. Negotiated Service Agreement ("PHI NSA"), when originally due pursuant to Order No. 2009. Valpak submitted Supplemental Comments regarding the PHI NSA when next due on April 10, 2014. Due to the Postal Service's ongoing delays in responding to Chairman's Information Requests, Order No. 2049 (Apr. 14, 2014) extended the deadline for Initial Comments further to April 23, 2014. Valpak submits the following Further Supplemental Initial Comments in response to the Postal Service's more recently submitted response to ChIR Nos. 2 and 3.

1. The Postal Service initial filing and all of its supplemental filings combined are insufficient to approve the NSA. 39 C.F.R. § 3010.42(f) requires that the Postal Service use the Commission's accepted analytical principles to calculate the projected change in net financial position. Neither the Postal Service's responses to ChIR No. 2, question 1, nor its

response to ChIR No. 3, question 1 shows the projected change in net financial position for each of the years 2-5 of the proposed NSA, using the Commission-approved methodology.

Thus, the Postal Service fails to show the total net value to the Postal Service for the five years of the contract as required by 39 U.S.C. § 3622(c)(10)(A). The Postal Service's failure to comply with the Commission's required filings — now after three opportunities — has forced the Commission to decide the case without adequate record evidence to approve the PHI NSA. For this reason alone, it must be rejected.

2. Additionally, the data that have been submitted make no sense. The spreadsheets attached to the responses to ChIR No. 2, question 1, and ChIR No. 3, question 1 show the following :

	ChIR No. 2	ChIR No. 3
(1) Total Actual Volume	227,000,000	227,000,000
(2) Revenue per Piece	\$ 0.243	\$ 0.243
(3) Cost per Piece	\$ 0.179	\$ 0.179
(4) Marginal discount	\$ 0.026	\$ 0.049
(5) Std Mail Regular Elasticity	-0.890	-0.890
(6) ECR Flats rebate paid	\$666,334	\$1,198,169
Total Net Value to USPS	\$735,682	\$1,459,552

Comparing the different data submitted in response to ChIR Nos. 2 and 3, it would appear that

- (i) increasing the marginal discount for incremental volume on row 4 from \$0.026 to \$0.049 results in increasing the ECR Flats rebate paid (row 6) from \$666,334 to \$1,198,169, and
- (ii) also results in increasing the Total Net Value to USPS from \$735,682 to \$1,459,552.

A. The Postal Service utterly fails to explain how increases in the marginal discount and total rebate paid increases the total net value to the Postal Service. The model used to derive these results would appear to suggest that a **larger marginal discount** (*i.e.*, above

\$0.049) would cause a further **increase in the total net value** to USPS. The Postal Service never explains whether the relationship between (i) ECR flats rebate paid and (ii) total net value to USPS linear is over the range of data shown for ECR flats rebate paid (*i.e.*, from \$666,334 to \$1,198,169).

B. Additionally, although the entries on rows 4 and 6 above obviously differ, the references for rows 1-6 are identical in the spreadsheets attached to both responses. The Postal Service should have explained how identical references can produce such different results.

3. For each year shown in the spreadsheet provided in response to ChIR No. 3, question 1, the Postal Service does not provide the implied price elasticity of demand for (i) Tiers A, B, and C computed individually for the respective marginal change in price and incremental change in volume, or (ii) for the entire year as a whole using average change in price and volume. *See PHI_NSA_Financials FINAL_Exigent*, spreadsheet 4_tier.

4. The Postal Service has not accounted for the termination of the Commission authorized exigent 4.3 percent price increase once the Postal Service's additional revenues reach \$3.2 billion. *See Order No. 1926*. Termination is projected to occur in a little over 18 months after the exigent rate increase became effective, which would be toward the end of Year 1 or the early part of Year 2 of the proposed contract. It does not appear that the analyses and projections in *PHI_NSA_Financials FINAL_Exigent* reflect termination of the exigent rate increase as required by Order No. 1926. Thus, the Postal Service's revised projections are inconsistent with price changes under current Commission orders.

These comments reveal basic flaws that cannot be cured by last minute reply comments finally providing the Commission with information that should have been filed at the outset of

this docket. The Commission's job is to evaluate the Postal Service's filing based on the law, not to find creative ways to approve inadequate and illegal filings. Whenever the Commission allows the Postal Service to obscure its case until the last minute, it violates the statutory scheme and denies to mailers their due process right to analyze and comment on Postal Service proposals. On the record before it, and if the requirements of law are to be respected, the Commission has no choice other than to reject the PHI NSA.

Respectfully submitted,

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